Service Date: March 2, 1989

DEPARTMENT OF PUBLIC SERVICE REGULATION

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MONTANA

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IN THE MATTER of the Application of MOUNTAIN STATES TELEPHONE AND TELEGRAPH (U S West Communications or Mountain Bell) for a General Rate Increase.	UTILITY DIVISION DOCKET NO. 88.1.2
IN THE MATTER of the Application of MOUNTAIN STATES TELEPHONE AND TELEGRAPH (U S West Communications or Mountain Bell) for Authority to Incorporate An 800 Service Circuit Termination on a Centron 6 or 30 Service.	DOCKET NO. 88.9.33
IN THE MATTER of the Application of MOUNTAIN STATES TELEPHONE AND TELEGRAPH (Mountain Bell or U S West Communications) for Authority to Incorporate Revised Directory Assistance Tariffs Into Its Tariff to State Alternative Terms of Service for Customers of Independent Local Exchange Carriers.	DOCKET NO. 88.8.44 INTERIM ORDER NO. 5354a

FINDINGS OF FACT

On January 22, 1988, U S West Communications (USWC) (formerly Mountain Bell) filed an application for a general rate increase with the Montana Public Service Commission (MPSC or Commission). The application requested rate increases to produce an additional $13.9 million in annual revenues.

On June 30, 1988, USWC filed an updated final rate request. The revised filing requested additional annual revenues of $17.5 million. USWC requested that $10.1 million ofthis increase be granted on an interim basis, pending a final decision.

On September 19, 1988 the Commission granted USWC additional revenues of $6,366,000 to recover the additional intrastate revenue requirement associated with FCC mandated 1988 separations shifts, the Uniform System Of Accounts rewrite costs and TECOM carrier access rate increases.

Hearings were held on the issues in this Docket from December 5 - 16, 1988.

On January 19, 1989, a stipulation between USWC and Montana Consumer Counsel (MCC) was submitted to the Commission. The stipulation represents an agreement between those two parties to dispose of the revenue requirement issues of this case. The stipulation states that a permanent rate award of $5.5 million in this Docket will result in rates that are not excessive and that are otherwise reasonable.

USWC currently has a request for a revenue increase of $3,095,000 pending before the Commission in Docket No. 88.12.55. In that case USWC seeks to recover the intrastate revenue requirement associated with the effects of certain FCC mandated separations changes that took effect on January 1, 1989. USWC has requested immediate interim relief for the full amount requested in Docket No. 88.12.55.

The stipulation filed in this Docket suggests that the Commission issue a further interim in this case to coincide with any interim order in Docket No. 88.12.55, reducing the interim in place in this Docket from $6,366,000 to the stipulated $5,500,000. This amount would remain in effect until a final order is issued in this Docket.

The Commission has not yet accepted or rejected the Stipulation in this Docket. However, the suggestion of USWC and MCC is reasonable. If the Commission accepts the stipulation, no revenue adjustment will be required in the final order in this Docket. If the Commission does not accept the stipulation, any change from the stipulated level can be addressed in a final order addressing all issues in this case. Therefore, the Commission finds that a revenue reduction of $866,000 is reasonable, resulting in a revised interim increase of $5,500,000.

Coincident with this Order, the Commission is issuing Order 5398 in Docket No. 88.12.55. That Order grants USWC an additional $3,095,000 in annual revenues. The Commission finds that these two revenue changes, totalling $2,229,000, should be implemented together in order to minimize the number of rate changes necessary and to ease administrative costs associated with the changes.

RATE DESIGN

BACKGROUND

Three proposed stipulations have been filed in this docket regarding rate design. The relevant terms and conditions of the first stipulation, dated December 12, 1988, between AT&T and USWC (USWC Exh No.26) are summarized in finding no. 25 as they relate to USWC's proposed increase in Special Access prices. A second proposed stipulation, dated December 13, 1988, was filed between Northwest Telephone Systems Inc. (NWTS) and USWC (USWC Exh No.2-NW). The relevant terms and conditions of this stipulation are summarized in finding no. 26 regarding Directory Assistance. Finally, a third proposed stipulation between the Montana Consumer Counsel and USWC, dated January 19, 1989, was filed regarding revenue requirements. The intent of this stipulation is summarized in finding no. 5, above. This proposed stipulation will be referred to as the "MCC/USWC stipulation" throughout the remainder of this order.

On page four of the MCC/USWC stipulation, the parties suggest a rate design which is projected to generate the revenue requirement from the combined effect of Docket 88.1.2 and the interim increase requested in Docket 88.12.55. That rate design is summarized in table 1 below:

Table 1. MCC / USWC SUGGESTED RATE DESIGN.

1. Directory Assistance (reduction to three free calls from present five call allowance)	$ 319,777
2. Listings (increase charge for non-published and non-listed service)	177,518
3. New Number Referral	79,000
4. Special Access (increase charge to inter exchange carriers)	283,579
5. Late Payment Charge	1,359,000
Total Revenue Projected Increase	$ 2,218,874

Source: Stipulation of USWC and The Montana Consumer Counsel, Docket No. 88.1.2 et al. January 19, 1989, page 4.

This rate design proposal, USWC's position, and each intervening party's position regarding each issue addressed in this order are summarized below.

1. Directory Assistance:

A reduction in free Directory Assistance (DA) calls from the currently tariffed 5 to 3 calls and an increase in the price per call after three calls of $.40, up from $.37, is suggested in the MCC/USWC stipulation. (See DR MPSC 159A, Attachment A.)

Testifying on behalf of USWC, Marcia K. Rounds (USWC Exh No. 27) proposed that the free call allowance to residence and business customers be reduced from 5 to 1 and the price per call thereafter be set at $.40 per non-operator assisted DA call. The company also proposed that DA calls from hotels, motels, mobile telephones, hospitals, and OutWATS should be treated the same as residential and business calls. To simplify charges, a $0.25 charge to coin telephone DA is proposed. USWC holds that 68% of DA calls will be billed for if the above changes are implemented and that only 29% of USWC's customers would be affected by the call allowance change. USWC also proposed that operator handled DA calls be priced at $1.35 per call. The intent of USWC's DA proposal is to have customers bear the costs they cause. The resulting proposed market response revenue effect of this rate structure is $877,877.

In his supplemental testimony (USW Exh No. 2-S), L. Frank Cooper recommended that Local Exchange Carriers (LECs) and their customers be charged $0.50 per DA call with no free call allowance. The price level necessary to cover aggregate costs of providing independent LEC customers DA with a one free call allowance is presumed by Mr. Cooper to be $0.78. This figure is based on the assumption that Independent LEC customers' calling habits would be the same as those of USWC customers. He also argued that the $0.50 price is necessary to cover costs of providing DA to LEC's and their customers. The net annual revenue effect of the $0.50 Independent LEC DA proposal is $220,695.

2. Listing Services:

The second item in the MCC/USWC stipulation are the proposed changes in Listing Services. The resulting net revenue increase in Listing Services would be $177,518. The bulk of the increase in Listing Services occur for nonlisted and nonpublished services, accounting for $157,235 of the proposed $210,276 increase in recurring charges. This increase is proposed to be countered by a $32,757 net decrease in nonrecurring rates with the majority accruing to the business class.

3. New Number Referral:

Third on the MCC/USWC stipulation rate design list is New Number Referral Service. In this Docket, USWC proposes to implement a series of monthly charges for a "specialized custom announcement detailing (a customer's) new telephone number when their old telephone number is dialed." (Marcia K. Rounds Direct, p. 13, USWC Exh No. 27) Proposed tariffed prices for the service will allow a business up to twelve months of service and residential customers up to three months of service. If the business or residential customer does not request this service, USWC will continue to provide the current standard announcement, which is assumed to be the Company's Basic Intercept service. Currently, there are two tariffed intercept options provided at no charge. These options are Basic Intercept and New Number Referral Service. These services are differentiated by whether or not they include any new number information. The projected total revenues for this service are $79,000.

<u>4. Special Access:</u>

Recurring and nonrecurring Special Access Service revenues have been proposed to increase by $283,579. USWC argues that Special Access prices should be based on market conditions rather than on artificial accounting cost allocations (Frank J. Allesio, Direct, USWC Exh No. 24). A summary of the chronology of events surrounding Special Access per Kenneth L. Greenwalt's Testimony (USWC Exh No. 28) is presented in table 2 below.

Table 2. HISTORY OF SPECIAL ACCESS SERVICES IN MONTANA

Time Period	Event
Divestiture	Mountain Bell (MB) filed Special Access tariffs with the Montana Public Service Commission (MPSC).
11-1-85	MPSC deregulated MB's Private Line services.
9-8-86	MPSC Authorized MB to withdraw its Special Access Tariff in Order No. 5223.
10-30-87	In AT&T Communications v. Montana Public Service Commission and Mountain States Telephone and Telegraph (Cause No. CDV-86-1246), the Montana State District Court for Lewis and Clark County ordered MB to re-regulate Special Access.
1-8-88	Special Access was re-regulated under the Private Line title, although not designated as Private Line. A preface page to the access tariff was also filed stating discounts to the monthly rates and service and equipment charges.
Docket No. 88.1.2	USWC seeks to remove the discounts stated on the Access Tariff's preface page resulting in a $238,579 revenue increase.

5. Late Payment Charge:

Lastly, the MCC/USWC stipulation suggests that a Late Payment Charge (LPC) be implemented to recover the remaining revenues sought. USWC proposed a charge of 1.5% per month to be applied to any customer's unpaid balances at the time the next bill is prepared. The proposed LPC would not apply in the following cases: 1) any balance not exceeding $25.00, 2) billed amounts under dispute that are resolved in the customer's favor and 3) bills rendered more than 10 days after the bill date.

INTERVENING PARTIES POSITIONS REGARDING THE SUGGESTED RATE DESIGN

The following is a summary of the intervening parties' positions on each portion of the suggested rate design.

MONTANA CONSUMER COUNSEL

Allen G. Buckalew sponsored the rate design testimony filed in this case on behalf of the MCC. The following is a summary of his testimony regarding the suggested rate design.

Directory Assistance:

Although Mr. Buckalew agrees with USWC's position that DA calls made from hotels, motels, mobile, and hospital telephones should be treated the same as residence and business customers, he does not concur with the proposal to reduce the call allowance to one. Rather, he proposes that the call allowance be reduced to 3 in order to reduce the impact a 5 to 1 call allowance would have on ratepayers. Mr. Buckalew buttresses his argument with a recurring theme in his testimony which says that the Commission needs to look at what should and should not be included in basic rates (see MCC Exh No. 14, pp. 39 & 40).

New Number Referral Service:

Mr. Buckalew points out that in the past this service was provided for a limited period of time at no additional charge to the customer. He also points out, as with DA, that the Commission must decide what is to be included in basic exchange service. His argument is essentially that as existing basic exchange services are being unbundled from the basic exchange rates, those rates aren't falling yet the amount of service received for those rates is becoming less (see MCC Exh. No. 14, pp. 42-43).

MONTANA TELEPHONE ASSOCIATION

Directory Assistance:

Robert G. Orr testified on behalf of the Montana Telephone Association (MTA) in opposition to USWC's proposal to establish a DA rate for MTA member customers different from the rate proposed for USWC customers. Mr. Orr proposes that "(t)he Commission should not approve U S West's proposal for a differentiated rate to end users in MTA's service territory..." Mr. Orr supports his argument by claiming that 1) the cost of providing DA to USWC rural customers is probably similar to providing DA to MTA customers; 2) the higher proposed deaveraged rate will jeopardize universal services; 3) if such deaveraged rate rationale were applied to other services, such as long distance services, universal service would be further hampered. However, Mr. Orr did state that USWC should be allowed to charge a DA rate that would cover its total DA costs (MTA Exh No. 1).

AMERICAN TELEPHONE AND TELEGRAPH

Michael V. Wood, in his direct testimony, argued that USWC should not be permitted to increase Private Line (Special Access) prices, based on grounds of discrimination and inappropriateness in a monopolistic environment. Mr. Wood also argued that Carrier Access Charges (CACs) should be reduced by a minimum of $0.01 per minute. (AT&T Exh No. 1)

However in another stipulation in this Docket USWC and AT&T stated that AT&T would withdraw its opposition to USWC's proposed increase in Special Access prices based on market based pricing principles. The basis for this stipulation is that USWC and AT&T agree, in principle, that CACs should be imputed into USWC's cost of providing Message Telecommunications services in order "that all providers of interstate toll services in Montana should have access to the switched network under equal rates, terms and conditions." (USWC Exh No. 26)

NORTHWEST TELEPHONE SYSTEMS INC. (NWTS)

In yet another stipulation between NWTS and USWC, NWTS agreed to withdraw its participation in this Docket based on the agreement that USWC will "provide HNPA 555 directory assistance service to NWTS customers by MST&T tariff Section A.6.2.4." (HNPA and MST&T are assumed to mean Home Number Planning Area and Mountain States Telephone and Telegraph, respectively.) The terms and conditions of this agreement are outlined in paragraphs 3 - 7 of this stipulation. The parties agree that USWC will provide HNPA 555 DA at $0.32 per DA message. (USWC Exh No. 2-NW) The key difference between this agreement and the cost structure underlying USWC's DA provision to independent LEC customers is that NWTS will be responsible for billing and collection and access costs (cf USWC Exh No. 2-S p. 2 and No. 2-NW Pars. 5-6).

COMMISSION DECISION

Directory Assistance:

The Commission finds the suggested $0.40 per Directory Assistance call with a 3 free call allowance per access line or PBX trunk per month to be reasonable for interim purposes. The revenue impact of this rate structure is approximately $319,777 (DR STF02-MPSC-159A). This amount only accounts for potential revenues for serving USWC customers with direct dialed DA within USWC's Montana service territory, excluding independent LECs and their customers. Pursuant to Order No. 5372 in Docket 88.8.44, USWC will be required to provide DA services to independent LECs and their customers that are consistent with Findings of Fact Nos. 2 and 3 of Order No. 5372. The Company is directed to file tariff schedules implementing this change. The Company's proposed changes to DA charges for hotels/motels, mobile telephones, hospitals, OutWATS, coin phones, and operator handled DA calls will be addressed in the final order. Also to be addressed in the final order is the Company's proposed charges to independent LECs and their customers as summarized in Finding No. 14 above.

Listings, New Number Referral, and Special Access:

The Commission approves the suggested rate design regarding Listings, New Number Referral and Special Access, on an interim basis. The total revenue increase for these services is $440,097.

Late Payment Charge:

The Commission finds that the Late Payment Charge (LPC) proposed in this Docket has economic merit in encouraging customers to pay their bills on time. However, based on two broad premises, the Commission does not agree that 1.5% per month is an economically efficient rate. The first of these premises is from a marginal cost point of view and is summarized in finding nos. 30-32. The second premise is shaped by some of the more practical considerations necessary to achieve sound ratemaking objectives. This premise is summarized in finding nos. 33-35.

Two economic or marginal cost perspectives were reviewed before arriving at a 1% per month rate: 1) the Company's avoidable cost associated with late payments, and 2) the consumers' marginal or "credit card" cost associated with late payments. First, the Company's economic or marginal cost rate would be set according to the interest cost USWC would avoid if all customers paid their bills on time. This rate is synonymous to the Company's cost of short term debt. According to USWC witness Brian Johnson, this rate is currently 8.2% per annum or .68% per month with a 10 year historical range of 6% to 10% to 12% (TR pp. 238-239).

The "credit card" cost rate is summarized by Brian Johnson (TR p. 240). This cost would be based on the rate a consumer would incur to borrow funds. Mr. Johnson states that this rate, of about 18% per annum, should be the rate "(i)f the intent of the late payment charge is to get...customers to pay their bill earlier." Mr. Johnson suggests that this rate should be the customer's cost of debt of about 18%.

According to Mr. Lane's direct testimony, the intent of the LPC is to "...help offset expenses incurred as a result of carrying these (unpaid) balances each month." (USWC Exh. No. 31, p. 4) On an annual basis according to Lane's exhibit Schedule 1, page 1, the initial year's cost to implement the charge will be about $81,000. Furthermore, the Commission finds that according to the

Late Payment Charge Cost Study (Tab 17, Cost Filing Package, December 1987, USWC Exh No. 32-P) a 1.5% per month charge would more than offset administrative and capital costs. Moreover, based on USWC's cost study, Mr. Lane's Schedule 1, Data Request No. MCC 11-017, and the testimonial record, a 1% per month LPC would also be compensatory.

The Commission has some concerns regarding the practical equity and consumer-oriented aspects of the LPC. The Commission is concerned that an 18% annual rate would result in confusion and resistance by ratepayers, due to its inconsistency with other Commission-approved LPCs. In addition, the Company's proposal to apply the LPC to all disputed bills which are not resolved in the customer's favor also invites ratepayer confusion and dissatisfaction, since many disputes are settled by some form of compromise without any clear "winner" or "loser".

Furthermore, the Commission finds that the ratemaking goal of price stability may not be fostered by imposition of the LPC. The Company states that its intent in requesting the LPC is partly to encourage timely bill payment practices by its customers. General economic theory indicates that such may indeed be one result of the LPC. However, if customers do in fact change their payment practices, a revenue shortfall could result, which could then lead to additional rate increase requests from the Company.

Fairness in apportioning total cost of service among different consumers is another rate design principle that causes the Commission concern with respect to the LPC. Specifically, those customers who are having difficulty paying present telephone rates due to their financial limitations may pay a disproportionate share of the total LPC revenues.

Based on these premises, the Commission finds that a 1% per month LPC is a reasonable rate to meet the intent of the charge. This charge must not be compounded in any manner or form. Furthermore, the Commission holds that the LPC will not affect disputed bills during the period of the dispute (regardless of whether it is resolved in the customer's favor) or instances where the customer has entered into an alternative payment arrangement agreement with the Company. However, this charge shall apply to that portion of the bill not under dispute. The total revenue impact of this LPC plan is estimated to be $883,093. The Commission also considered the advantages of only applying the LPC to late bills exceeding $35; however, due to an absence of sufficient data in the record to calculate the revenue effect of such a change, the Commission regretfully approves the LPC for late bills exceeding $25 as requested by the Company. The Commission directs the Company to file sufficient information to calculate such a change in its next rate case.

Reconciliation:

The total revenue effect of the Commission approved interim rate design is $1,742,967 based on the suggested rate design presented in the MCC/USWC proposed stipulation with the exception of the change in the LPC. The target combined revenue requirement for Dockets 88.1.2 and 88.12.55 is $2,229,000, leaving a residual amount of $486,033 yet to be allocated.

The Commission requires USWC to spread the residual allowed interim revenues of $486,033 over all reoccurring charges for local exchange access services (i.e. flat-rated, message, and message exchange services) using an equipercentage methodology. Table 3 shows the rate impacts due to an equipercent increase on flat-rated and measured access services. The equal percent increase will be about .798% for each service.

Table 3. RATE IMPACTS.

Rate Class	Rate	Current	Increase	Result
Residential				
Flat-Rated	1FR	$ 13.73	$ .11	$ 13.84
	2FR	10.59	.08	10.67
Measured	LW1	8.08	.06	8.14
Business				
Flat-Rated Zone 1	1FB	35.52	.28	35.80
Zone 2	1FB	38.38	.31	38.69
Measured	LMB	20.20	.16	20.36

CONCLUSIONS OF LAW

1. USWC offers regulated telecommunications services in the state of Montana and is a public utility pursuant to Section 69-3-101, MCA. The Commission has authority to supervise, regulate, and control public utilities. Section 69-3-102, MCA.

2. Section 69-3-304, MCA, provides in part, "the Commission may, in its discretion, temporarily approve increases or decreases

pending a hearing and final decision." The rates approved herein are a reasonable means of providing interim annual revenue adjustments for Mountain Bell.

3. If the final revenue requirement in this Docket is less than the revenues granted in this Order, ratepayers may be entitled to a refund with interest. Section 69-3-304, MCA.

ORDER

1. Mountain Bell is hereby GRANTED a $866,000 decrease in annual revenues on an interim basis. This award revises the Commission's original interim award of $6,366,000 in this docket (Order No. 5354) downward to a net increase of $5,500,000.

2. The revenue decrease in this Order will be implemented coincident with the revenue requirement ordered in Docket No. 88.12.55, Order No. 5398.

3. Rates granted in these Dockets will be effective upon filing and approval by the Commission.

DONE AND DATED at Helena, Montana, this 2nd day of March, 1989, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

WALLACE W. "WALLY" MERCER, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell
Acting Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.